

The Facts About . . .

The Surety Bond Guarantee Program

If your small construction or service company bids on projects requiring surety bonds, the U.S. Small Business Administration has a program that could make you more competitive.

The Surety Bond Guarantee Program provides small business contractors with contracting opportunities for which they could not otherwise compete. By law, prime contractors to the federal government must post surety bonds on most federal construction projects valued at \$100,000 or more. Many state, county, municipal and private-sector contracts also require bonding, but new and small businesses may not be able to obtain bonds through regular commercial channels. Through this program, the SBA can guarantee bid, payment and performance bonds for contracts up to \$1.25 million for eligible small contractors.

A surety bond is essentially a three-way agreement between the surety company, the contractor and the project owner. If the contractor fails to comply with the terms of a contract, the surety assumes the responsibility and ensures that the project is completed. The SBA guarantees surety companies against a percentage of the losses sustained as a result of a contractor's default on a guaranteed bid, payment or performance bond. There are four major types of surety bonds:

- **Bid** -- guarantees the bidder will enter into a contract and furnish the required payment and performance bonds
- **Payment** -- guarantees payment from the contractor to parties who furnish labor, materials, equipment and supplies
- **Performance** -- guarantees the contractor will fulfill the contract in accordance with its terms
- **Ancillary** -- bonds which are incidental and essential to the performance of the contract

The SBA Guarantee

The overall program consists of the Prior Approval Program and the Preferred Surety Bond Program. Under the Prior Approval Program, the guarantee may range from 80 to 90 percent of the loss sustained under a guaranteed bond, and the surety must obtain SBA approval for each bond. Under the Preferred Surety Bond Program, selected sureties receive a 70 percent bond guarantee and are authorized to issue, service and monitor bonds without the SBA's prior approval. Certified HUBZone contractors are eligible for the 90 percent guarantee under the Prior Approval Program. More information on the HUBZone Empowerment Contracting Program is available at the Web site www.sba.gov/hubzone.

Who Is Eligible?

Contractors -- In addition to meeting the surety's bonding qualifications, a contractor must meet the SBA's size eligibility standards for a small business. Businesses in the construction and service industries can qualify if their average annual receipts for the last three years, including those of any affiliates, do not exceed \$5 million.

Manufacturers may also qualify depending on the number of company employees. Your Surety Bond Guarantee Area Office can answer any questions regarding eligibility. A list of those offices is included in the For More Information section.

Bonds -- The SBA can guarantee bonds for contracts up to \$1.25 million. A contract bond (bid, payment or performance) is generally eligible for an SBA guarantee if the bond is Ñ

- listed in the Contract Bonds section of the Surety Association of America's Manual, Rules, Procedures and Classifications;
- required by the contract or invitation to bid; and
- executed by a surety company that is acceptable to the U.S. Treasury (Circular 570) and qualified by the SBA.

Ancillary bonds may also be eligible. For more information, contact your SBG area office.

How to Submit an Application

As a contractor, you may choose a participating surety company and apply for a specific bond through a bonding agent who represents the surety. Your application provides the background, credit and financial information required by the surety company and the SBA.

Once the surety company receives your completed forms and sufficient underwriting information, it processes and underwrites your application and decides whether to execute the bond without an SBA guarantee or execute it only with an SBA guarantee.

Your SBG area office maintains a list of surety agents who can provide you with SBA-required forms.

Application Review

If a surety in the Prior Approval Program determines that the SBA must guarantee your bond, it submits an underwriting review, guarantee agreement, supporting documents and your application forms to the SBA. If the application is for a final bond, your guarantee-fee check is also attached. A surety in the Preferred Surety Bond Program may issue your bond without the SBA's approval. The surety must then report the bond to the SBA and forward your fee payment within the required time.

Surety Bonding Programs

Under the Prior Approval Program, surety companies may use a pre-established surety bonding line to issue SBA-guaranteed bonds without submitting a complete application package to the SBA.

Under the Preferred Surety Bond Program, participating sureties are authorized to issue, service and monitor bonds without SBA's prior approval. Both programs issue bonds quickly and efficiently.

Fees

The SBA charges fees to both the contractor and the surety company. Rates are published periodically in the Federal Register. The SBA does not charge the contractor a fee for a bid-bond guarantee.

When the bond is issued, the contractor pays the surety company's bond premium. This charge cannot exceed the level approved by the state in which the bond is issued.

Using the SBA's Surety Bond Guarantee Program could pave the way to obtaining federal, state, county, municipal or private-sector contracts. Why not give us a try?

Surety Bond Guarantee Area Offices

- SBG Area Office 1
900 Market Street, 5th Floor
Philadelphia, PA 10107
215-580-2706

Serving Connecticut; Delaware; Illinois; Indiana; Maine; Maryland; Massachusetts; Michigan; Minnesota; New Hampshire; New Jersey; New York; Ohio; Pennsylvania; Puerto Rico; Rhode Island; U.S. Virgin Islands; Vermont; Virginia; Washington, D.C.; West Virginia and Wisconsin.

- Surety Bond Guarantee Area Office 2
233 Peachtree Street
Suite 1900, Harris-Tower
Atlanta, GA 30303
404-331-0100, extension 701

Serving Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, New Mexico, North Carolina, Oklahoma, South Carolina, Tennessee and Texas.

- Surety Bond Guarantee Area Office 3
721 19th Street, Suite 426
Denver, CO 80201-0660
303-844-5231, extension 261

Serving Colorado, Iowa, Kansas, Missouri, Montana, Nebraska, North Dakota, South Dakota, Utah and Wyoming.

- Surety Bond Guarantee Area Office 4
1200 6th Avenue, Suite 1700
Seattle, WA 98101-1128
206-553-0961

Serving Alaska, Arizona, California, Guam, Hawaii, Idaho, Oregon, Nevada and Washington.

For More Information

- SBA offices are located in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam. For the office nearest you, look under "U.S. Government" in your telephone directory, or contact:
- Phone: 1-800 U ASK SBA
- Fax: 202-481-6190
- E-mail: answerdesk@sba.gov
- TDD: 704-344-6640
- Your rights to regulatory fairness: 1-888-REG-FAIR
- Internet
SBA Home page: <http://www.sba.gov>
Gopher: <http://www.sba.gov/gopher>
U.S. Business Advisor: <http://www.business.gov>

SBA Partners

Inquire at your local SBA office for the location nearest you.

- Business Information Centers -- BICs
- Tribal Business Information Centers -- TBICs
- One Stop Capital Shops -- OSCSs
- Service Corps of Retired Executives -- SCORE
- Small Business Development Centers -- SBDCs
- U.S. Export Assistance Centers -- USEACs
- Women's Business Centers -- WBCs

Publications

- The Facts About ... SBA Publications -- a listing of free SBA publications

Did you know that in fiscal 2000 the SBA –

- backed a record of nearly \$18 billion in financing to America's small businesses?
- approved more than 50,400 small business loans totaling almost \$12.4 billion?
- made more than 4,600 investments worth \$5.6 billion through its venture capital program -- a 33 percent gain over fiscal 1999?
- provided more than 28,000 loans totaling approximately \$1 billion to disaster victims for residential, personal-property and business loans?
- extended management and technical assistance to an estimated 1.23 million entrepreneurs through its resource-partner programs?
- responded to almost a quarter million telephone and e-mail inquiries at the SBA Answer Desk?

Did you know that America's 25 million small businesses --

- employ more than 58 percent of the private work force?
- generate more than 51 percent of the nation's gross domestic product?
- are the principal source of new jobs?

All of the SBA's programs and services are provided to the public on a nondiscriminatory basis.
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